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SUBJECT: Mexico Economic Weekly - June 5

[1](#)1. (U) The Mexico Economic Weekly supplements reporting from Mission Mexico Consulates and the Embassy Mexico Economic Section to provide a sense of ongoing trends. Please contact Adam Shub (shubam@state.gov) or Sigrid Emrich (emrichs@state.gov) for questions or comments about this report.

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ECONOMY AND FINANCE:

13. (U) GUILLERMO ORTIZ CALLS FOR APPROVAL OF REFORMS: For the central bank's governor the threat that Mexico's sovereign debt may be downgraded is real since the crisis has revealed that Mexico's public finances are deficient. Ortiz noted that although the financial sector in Mexico proved to be strong, the real economy was hit hard by the global crisis. Thus, in order to strengthen its shrinking economy Mexico should pass a fiscal and labor reform. In addition to security issues and the fall in oil prices, potential investors look at fiscal vulnerabilities. Mexico continues to rely on oil revenues for 35% to 37% of total budget revenues. Ortiz added that when the immediate crisis is over, Mexico needs to recharge its batteries for the medium and long

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terms by passing reforms and improving productivity. He proposed passing tax reform this year, which could be implemented in three years to give consumers and industry time to recover, while making making public finances more sustainable in the long run. Ortiz opined that while the economic crisis has bottomed out, signs of an economic recovery will not be palpable until 2010, depending on what happens in the U.S. He asserted that including the impact of the flu, the economy will contract 5.3% this year, not negative 8% as many observers have said. The Bank of Mexico expects year-end inflation rate of around 4%. (Mexico City)

14. (U) BANK OF MEXICO RELAXES TOOLS TO STEM PESO DEPRECIATION: The Foreign Exchange Commission anticipates lower peso volatility as a result of more global financial stability and availability of credit. It also said that under current conditions it would not have to activate the USD 47 billion flexible credit line granted by the International Monetary Fund. The Commission reduced its daily dollar auction from USD 100 million to USD 50 million. The Commission noted that even with daily auctions and direct dollar sales, year-end international reserves would reach USD 85 billion similar to the previous year. Both, the Finance Secretariat and the Bank of Mexico asserted that Mexico will be able to finance the expected current account deficit. (Mexico City)

15. (U) LOSSES IN TIJUANA DUE TO THE SWINE FLU: Tijuana lost 125 million pesos in the first five days of May as a result of the swine flu alert according to Roberto Quijano Sosa, President of the Mexican Employers' Confederation (COPARMEX). He noted a decline in sales of between 35 and 70 percent. The Coparmex executive called for the government's intervention in an effort to protect employment during the economic crisis. (Tijuanana)

16. (U) BAJA CALIFORNIA'S ECONOMIC PERFORMANCE UP. Baja California's economic indicators are favorable, which may mean that the state's economy could be one of the first to recover its growth rate according to Secretary of

State for Economic Development (SEDECO), Dr. Alejandro Mungaray Lagarda. From January to May, the state attracted USD 471 million in investment, more than over the same period in the past 5 years, with emphasis on investment and service trade, energy, aerospace and electronics, among others. With regard to the employment indicators, while Mexico as a whole logged a decrease of 750,000 jobs in 2008, Baja California lost only 3,752. Some sectors such as manufacturing and construction have been hit hard by the economic crisis, but others, such as agriculture, livestock and trade, have benefited from an increase in retail sales, partially compensating for losses in weak sectors. (Tijuana)

TRADE AND INVESTMENT:

17. (U) SONORA TARGETS SOFTWARE INVESTMENTS: Consejo Para La Promocion Economica de Sonora (COPRESON) officials told econoffs May 21 that U.S. businesses have reached out to COPRESON's Softlanding office, in search of ways to cut operating costs. COPRESON explained that the Softlanding office was the State Government's one-stop shop to help foreign investors navigate bureaucracy, showcase Sonora's competitive advantages, and help existing foreign companies grow their businesses. The Sonoran Government has targeted for growth software development, especially embedded software, such as in automotive and industrial electronics. With a newly completed first phase of a technology park in the city of Obregon, Sonora also boasts 1,000 technology graduates per year and currently ranks fourth in Mexico in the technology sector after Mexico City, Nuevo Leon, and Jalisco respectively. While cost savings for a U.S. firm moving its operations to Sonora might be in the range of 30-40 percent, it remains approximately 20 percent more than China. However, COPRESON emphasized Sonora's geographic advantage and direct flights between

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Hermosillo and many cities in the southwestern U.S. One locally-based U.S. tech firm told post that it chose Hermosillo in part due to the convenient non-stop flights from Las Vegas and Los Angeles and the fact that Sonora is in the same time zone. The automotive industry in Sonora had been hardest hit by the economic crisis. While overall production levels in the state fell 50 percent from last year, Sonora was much better off than many other states in Mexico. The Sonoran Secretariat of Economy contributes to the salaries of workers if the companies reduce worker hours but allowed them to keep their jobs. Over the last year, 45 manufactures have taken part in the program and 65,000 of the 120,000 manufacturing jobs in Sonora have been supported. Apart from the automotive sector, electronics and plastics manufacturers, construction material suppliers and other sectors related to the U.S. export market have been adversely impacted. (Hermosillo)

18. (U) MEXICAN EXPORTS DOWN: According to the Mexican Customs' office in Tijuana, used vehicle imports have decreased 80% and exports destined for the manufacturing industry have fallen 12% as a result of the economic crisis. Customs Administrator Carlos Ramirez Escoto reported that between January and April of this year importation of goods destined for the maquiladora industry fell 19.7%. (Tijuana)

19. (U) AMCONSUL CERTIFIES THE EXPO CONSTRUCTION INTERNATIONAL 2009: The U.S. Commercial Service announced the certification of the 7th edition of Expo Construction 2009 and added that the event offered great business opportunities for U.S. companies operating in Mexico. At a press conference held at Consul General

Ronald Kramer's residence, Ricardo Calderon, Director of the U.S. Commercial Service office in Tijuana, awarded the certification to the organizers of the event. (Tijuana)

¶10. (U) AUTOMOTIVE SECTOR UPDATE: Production in the automotive sector has fallen 60% and there are 15% fewer workers in the sector compared to the same time last year according to the director of the Nuevo Leon's automotive trade group, Manuel Montoya. Many more employees are working reduced hours or are on furlough. Nuevo Leon and its neighboring state of Coahuila are both large exporters of car parts and engine blocks for Ford, Chrysler and General Motors. The collapse of auto sales in the United States has had a devastating effect on the local economy. Industry executives point out though that inventory levels are decreasing and the unusual summer furlough of factories in the U.S. is scheduled to end in July, so there is some optimism that production will pick up by the end of the year. There is also some expectation by local parts suppliers that U.S. car manufacturers will shift production to Mexico where labor cost are 75% less than in the United States. (Monterrey)

¶11. (U) AMERICAN BUSINESSES SCALING BACK IN TORREON: Drug violence in Torreon-Gomez Palacio metropolitan area has forced American companies to reduce their presence in the area. A post contact reports that many U.S. companies have decreased their expat presence in the area. Two well known companies, Tyson Foods and John Deere, have pulled out all of their AMCIT employees. The violence is primarily a result of growing number of armed bands related to drug cartels and the lack of reliability of the police forces. On May 26, a Milenio newspaper reporter who covered local police news was found dead a day after being kidnapped. His murder was the second death of a journalist in a month. (Monterrey)

¶12. (U) PROCESS UNDERWAY TO ATTRACT FIRST AUTOMOTIVE ASSEMBLY PLANT IN CIUDAD JUAREZ: The Juarez Maquila Association (AMAC) announced on May 27 that it is working with public and private sector actors to attract the first auto assembly plant to Ciudad Juarez within three to four years. AMAC claims to be in negotiation with an un-named auto manufacturer to install a plant in the city. The AMAC President, Soledad Maynez, added that the Association is working to identify land for the plant and to obtain a certificate required by automotive assembly

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companies prior to investment. Ciudad Juarez offers relatively lower labor costs than the U.S., a favorable geography and an established auto part supply chain for auto manufacturing companies, such as Chrysler and General Motors, that seek to reduce their production costs, she added. The establishment of an auto assembly plant in Ciudad Juarez would create an estimated 35,000 direct jobs. (Ciudad Juarez)

¶13. (U) ARMED ROBBERY AT JUAREZ MAQUILADORA HIGHLIGHTS SECURITY CONCERNS: On May 28, four armed individuals broke into the U.S.-owned auto-parts manufacturing plant, Capsonic, stealing an estimated US\$ 200,000 from an automatic teller machine (ATM). According to Chihuahua's Secretary for Public Security (SSPE), there have been 23 robberies reported at maquiladoras in Juarez this year, of which two involved ATM thefts. The Juarez Maquila Association (AMAC) explained that there are currently 350 Chihuahua state police officers assigned to patrol approximately 190 maquiladoras in the city. AMAC also expressed concern that crime rates will increase if the estimated 10,000 federal police and army troops deployed to Ciudad Juarez as part of the Joint Operation Chihuahua depart prematurely. In AMAC's view, the Juarez Municipal Police will not be ready to take over public security responsibilities for at least two years. (Ciudad Juarez)

¶14. (U) AFI AGENTS CRACK DOWN IN IPR VIOLATIONS: Early on the morning of May 31, AFI agents raided Monterrey's largest flea market searching for IPR violations. The agents seized nearly 300,000 illegal copies of CDs, movies and video games. At the flea market, video games that sell legally for up to 900 pesos were on sale for only 50 pesos. Political candidates and business leaders have been calling for state and federal law enforcement agencies to conduct more seizures but this raid was only the second one of its kind this year. There were no arrests in the raid and it is highly expected that the vendors will return to the same area to sell pirated goods. (Monterrey)

ENERGY:

¶15. (U) GOVERNOR ACCUSES PEMEX OF POLLUTING: Tamaulipas Governor Hernandez Flores alleged this week that Pemex's crude oil production has been polluting Tamaulipas' beaches, a delicate position for a state that depends heavily on Pemex employment. This environmental declaration was countered by Matamoros Mayor Erick Silva, who claimed that there is very little pollution on the beaches near Matamoros. Mayor Silva's remarks could be seen as a move to provide support for further expansion of the port of Matamoros, expanding industry in the region. (Matamoros)

TRANSPORTATION AND INFRASTRUCTURE:

¶16. (U) VIVAAEROBUS ADDS NEW ROUTES: Monterrey based airline VivaAerobus is adding three new routes to/from Guadalajara filling in a void caused by the closure of Alma Airlines and also adding a new direct Monterrey-Las Vegas route. VivaAerobus, partly owned by Ireland's Ryanair, runs a very conservative business so the expansion of service is a strong vote of confidence from the airline for the domestic travel and tourism industry. However, the airline is less optimistic about U.S. tourists coming back any time soon to Mexico. VivaAerobus canceled all of its flights from its only other international destination, Austin, to Cancun and Puerto Vallarta. (Monterrey)

LABOR:

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¶17. (U) LOW PAYING JOBS INCREASE IN NUEVO LEON: In another sign that the economic recession in Mexico may be bottoming out, formal low-cost employment in Nuevo Leon is starting to increase. Those earning MXN\$3,200 a month increased 71% and those earning MXN\$4,800 increased 4% compared to October while total formal sector jobs fell 5.8% during the same time period (See Monterrey 0176). Even though the recession has hit Nuevo Leon hard, the rate of job losses is slowing and the economy shows signs of readjusting to the changes in the labor market. (Monterrey)

BASSETT